Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

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12MBAFM321

Third Semester MBA Degree Examination, Dec. 2013 / Jan. 2014
Advanced Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. *Answer any THREE questions, from Q.No.1 to Q.No.6.*
2. *Q.No. 7 and 8 are compulsory.*

1 a. What is Discriminant analysis? **(03 Marks)**
b. Explain the Operating and Financial synergies of mergers. **(07 Marks)**
c. Explain various short term sources to finance working capital. **(10 Marks)**

2 a. What is corporate dividend tax? **(03 Marks)**
b. What are demerits of excess and inadequate investment in current assets? Show how you will determine level of current assets with the help of graph. **(07 Marks)**
c. Two firms, Venkat Ltd and Sai Ltd., are identical in all aspects except leverage in capital structure. Venkat Ltd has 10% Rs 3,00,000 debentures. Both the firms have the same EBIT of Rs 50,000. The equity capitalization rate of Venkat is 16 percent and Sai 12.5 percent. You are required to calculate the total value of each firm and show arbitrage process assuming an investor holds 10% of the outstanding shares of the Venkat Ltd. **(10 Marks)**

3 a. What is Conglomerate Merger? **(03 Marks)**
b. Explain EVA and MVA. **(07 Marks)**
c. A firm is contemplating an increase in the credit period from 30 to 60 days. The average collection period which is at present 45 days is expected to increase to 75 days. It is also likely that the bad debt expenses will increase from the current level of 1 percent to 3 percent of sales. Total credit sales are expected to increase from the level of 30000 units to 34500 units. The present average cost per unit is Rs 8, the variable cost and sales per unit is Rs 6 and Rs 10 per unit respectively. Assume the firm expects a rate of returns of 15%. Should the firm extend the credit period. **(10 Marks)**

4 a. Narrate on the features of ideal capital structure. **(03 Marks)**
b. Discuss pros and cons of credit period and cash discount. **(07 Marks)**
c. The Ganges pump company uses about 75000 valves per year and the usage is fairly constant at 6250 per month. The valve costs Rs 1.50 per unit when bought in quantities and the carrying cost is estimated to be 20 percent of average inventory investment on an annual basis. The cost to place an order and process the delivery is Rs 18. It takes 45 days to receive delivery from the date of an order and a safety stock of 3250 valves desired. You are required to determine i) The most economical order quantity and frequency of orders ii) The order point iii) The most economical order quantity if the valves cost Rs 4.50 each instead of Rs 1.50 each. **(10 Marks)**

5 a. Briefly explain symptoms of industrial sickness. **(05 Marks)**
b. A Company's operating income (EBIT) is Rs 50,000 cost of debt 10 percent and outstanding debt Rs 200,000. If the overall capitalization rate (Ko) is 12.5 percent, what would be the total value of the firm and equity capitalization rate under Net Operating Income (NOI) approach. **(05 Marks)**
c. The following information supplied to you, determine the theoretical market value of equity shares of a company as per Waite's Models.

Earnings of the company	Rs 5,00,000
Dividend paid	Rs 3,00,000
Number of shares outstanding	1,00,000
Price earning ratio	8
Rate of return on investment	0.15

Are you satisfied with the current dividend policy of the firm? If not what should be the optimal dividend payout ratio in this case? **(10 Marks)**

6 a. Write a note on Postal float and Lethargy float. **(05 Marks)**

b. Explain the rationale behind Bonus issue and stock split. **(05 Marks)**

c. The sales of Texas manufacturing for the year 2000 was Rs 1400. Its profit margin on sales was 5%, dividend payout and tax rate 50% each. If the Balance sheet as on 31.3.2012 is

Share capital	170	Fixed Assets	450
Retained earnings	210	Inventories	230
Term loan	80	Receivables	95
Accounts payable	120	Cash	70
Provisions	45		
Short term Bank borrowings	220		
Total	845	Total	845

Calculate external fund requirement and prepare proforma Balance sheet as well as Income statement if external fund requirement is raised equally from short term liabilities and Bank borrowings. For the year 2013 sales is expected to increase by 40% and every thing else remain the same. **(10 Marks)**

7 a. On September, 2013 Micro soft announced acquision of Nokia for $ 7.2 billion. Discuss the various motives of Microsoft behind this acquisition deal. **(05 Marks)**

b. A manufacturing company is often generating excess cash and it has consulted you on managing its short term surplus cash balance. What are the ways you will advise the company to manage its surplus funds? Justify the same. **(05 Marks)**

c. Mr. Kailash a owner of a small scale industry is a moderate risk taker and wishes to issue equity and debentures to finance his working capital needs, do you support / not support his decision and why? **(05 Marks)**

d. "A debt financing is advisable to certain level and after that it is not, though the cost of debt is cheaper to equity". Do you agree? Explain. **(05 Marks)**

8 Prepare a cash budget for July – December from the following information :
The estimated sales, expenses, etc are as follows : (Rs in Lakhs) **(20 Marks)**

Particulars	June	July	August	Sept	Oct	Nov	Dec
Sales	35	40	40	50	50	60	65
Purchases	14	16	17	20	20	25	28
Wages & Salaries	12	14	14	18	18	20	22
Misc Expenses	5	6	6	6	7	7	7
Interest Received	02	-	-	02	-	-	02
Sale of Shares	-	-	20	-	-	-	-

i) 20% of the sales are on cash and the balance on credit.

ii) 1% of the credit sales are returned by the customers ; 2% debts are uncollectable ; 50% of the good account receivable are collected in the month of the sales and the rest during next month.

iii) The time lag in payment of miscellaneous expenses and purchase is one month. Wages and salaries are paid fort nightly with a time lag of 15 days.

iv) The company keeps a minimum cash balance of Rs 5 lakhs. Cash in excess of Rs 7 lakh is invested in Govt. securities in multiples of Rs 1 lakh. Short fall in the minimum cash balance are made good by borrowing from the banks. Ignore interest received and paid.

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